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Box
Article

Affordable Housing: Challenges and the Way Forward

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HIGHLIGHTS

- Houses in Malaysia remained unaffordable to many households in 2016 due to the failure in the market to produce a sufficient quantity of affordable housing for the masses.
- Policy propositions include establishing a single entity to spearhead affordable housing initiatives, setting up an integrated database to assist in matching demand and supply, and reducing costs. On the demand side, strategies include rehabilitating the balance sheet of households and improving the rental market.

Introduction

Housing affordability is a global concern plaguing key cities around the world in both developing and advanced economies. The key drivers include the rise in income growth and urbanisation, driven by better job opportunities in cities. Affordable housing is defined¹ as housing which is sufficient in quality and location, and is not so costly that it prevents its occupants from satisfying other basic living needs. In other words, the location, quality and build-up of a house is equally as important as the financial affordability of a house. In 2014, the McKinsey Global Institute estimated that 330 million urban households globally live in substandard housing or are financially stretched by housing costs. Malaysia faces a similar issue in this regard. A number of reasons encompassing structural, cyclical, institutional and cultural factors, culminating in a mismatch between supply and demand, has contributed towards houses becoming seriously unaffordable in Malaysia in 2016. Consequently, Malaysia faces a shortage of affordable homes for the masses. This box article focuses on drawing out for public discussion, several policy propositions as a way forward in addressing this challenge.

A. The state of housing affordability in Malaysia

In 2016, houses in Malaysia remain seriously unaffordable by international standards with a median multiple² of 5.0. The maximum affordable house price in Malaysia is estimated to be RM282,000³. However, actual median house price was RM313,000, beyond the means of many households, where the median national household income is only RM5,228.

The housing affordability issue in Malaysia is largely due to the supply-demand mismatch and slower income growth. Financing continued to be available for purchases of houses for eligible borrowers, with more than 70% of housing loans accorded to first-time buyers and close to two-thirds of new housing loans channelled to the purchase of houses below RM500,000⁴. On the supply side, structural and cyclical factors in the housing market in Malaysia have resulted in a failure of the market to provide an adequate supply of affordable housing for the masses (Figure 1). On the demand side, growth in household income has not kept up with the rise in house prices. Together with a low state of financial literacy amongst a majority of Malaysian households, and a cultural preference towards home-ownership instead of renting, these have contributed to the high demand for house purchases.

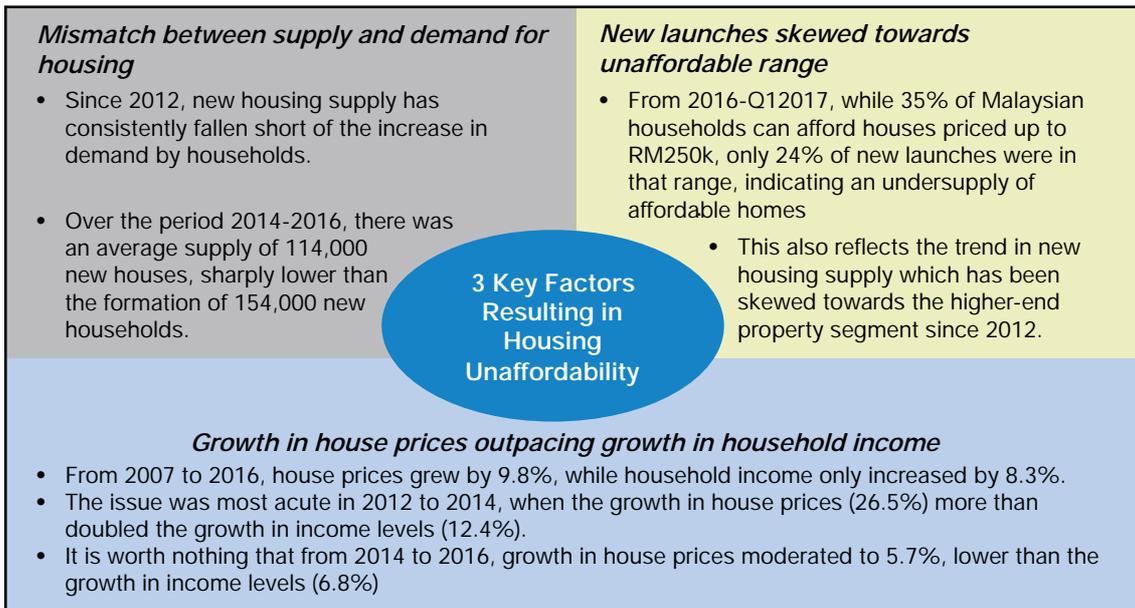
¹ According to the United Nations Human Settlement Programme (2011).

² Under the Median Multiple approach, housing is deemed affordable if median house prices are less than 3 times annual median household income.

³ Based on the Housing Cost Burden (HCB) approach, in which a house is affordable if housing costs are less than 30% of monthly household income. Considers the role of credit in financing the purchase of a house.

⁴ For further details, please refer to BNM's 3Q 2017 Quarterly Bulletin Box Article "Imbalances in the Property Market"

Figure 1: Factors Contributing Towards Housing Unaffordability in Malaysia⁵

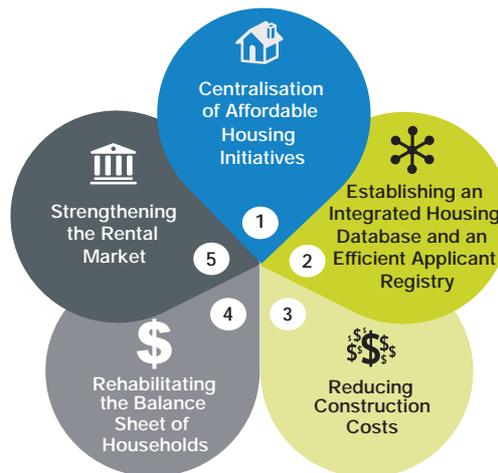


As a result of the acute supply-demand mismatch, the level of total unsold⁶ residential properties in Malaysia stands at a decade-high of 146,497⁷ units as at 2Q 2017, an increase from the 130,690 units as at 1Q 2017. During 2Q 2017, almost 82% of unsold units were priced above RM250,000.

B. Policy propositions as the way forward

Beyond measures to improve households' income in the long run, a holistic approach is needed to effectively bridge the affordable housing gap in Malaysia (Figure 2).

Figure 2: Five Key Policy Solutions to Reducing the Affordable Housing Gap in Malaysia

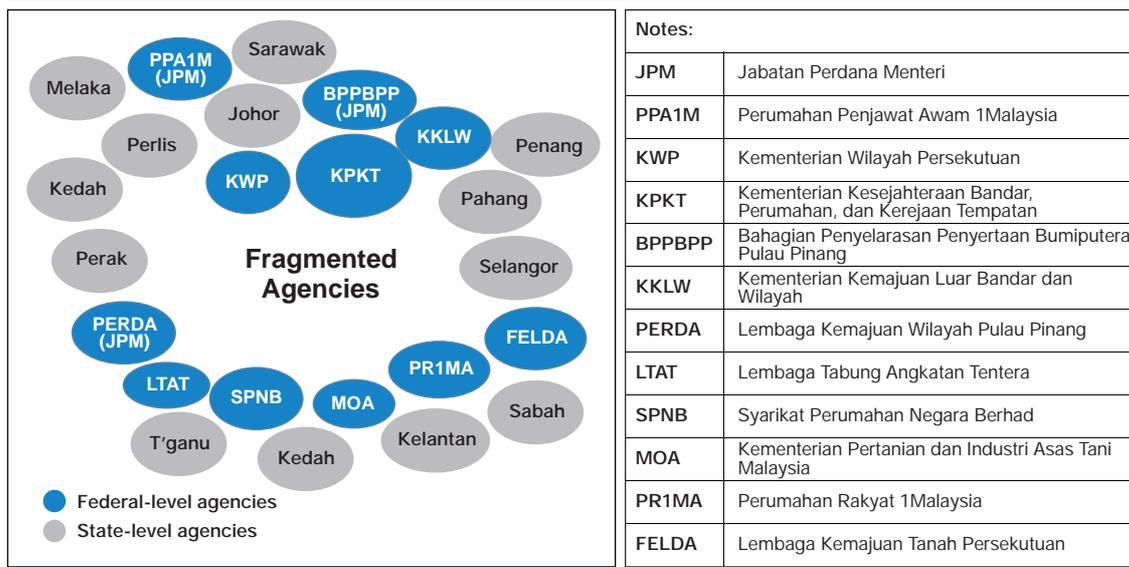


⁵ For more details, please refer to BNM's Annual Report 2016 Box Article "Demystifying the Affordable Housing Issue in Malaysia," and BNM's 3Q 2017 Quarterly Bulletin Box Article "Imbalances in the Property Market".
⁶ Includes both unsold properties that have been completed (overhang) and unsold properties currently under construction. These properties encompass all residential properties as well as serviced apartments and small office home offices (SOHO). (Source: National Property Information Centre).
⁷ In comparison, the average total unsold residential properties between 2004 to 2016 was 72,239 units per year.

i. Centralisation of affordable housing initiatives

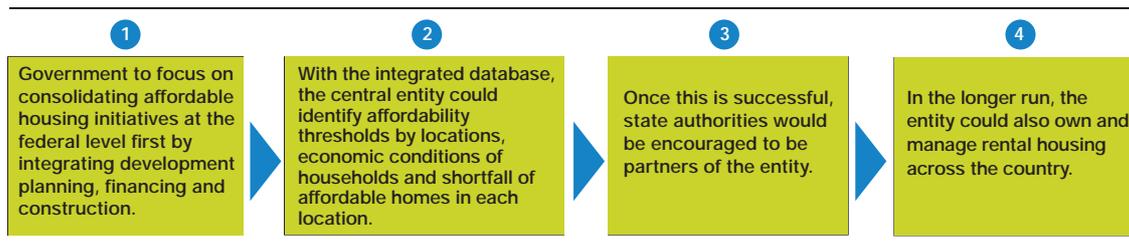
A single entity should be established to spearhead national affordable housing initiatives among the various Government and state agencies, and private players alike. Affordable housing provision is currently fragmented and uncoordinated nationwide. Over 20 national and state-level agencies are involved in the provision of affordable housing (Figure 3). This institutional factor has led to policy coordination being an issue, resulting in slow progress towards achieving the Government’s target of providing 1 million affordable homes by 2018. Between 2013 and October 2017, only 255,341 homes have been completed by the various public and private sector players.

Figure 3: More than 20 National and State-level Agencies Providing Affordable Housing



The consolidation will improve efficiency in planning, implementation and execution. Other strategic benefits of establishing such an entity include the acceleration of construction activities and reduced development cost due to economies of scale. The affordable housing initiatives could be consolidated first at the federal level, where the single entity can then leverage on the integrated database to plan affordable housing supply across the nation. Once this is successful, state authorities would be encouraged to be partners of the entity (Figure 4).

Figure 4: Centralising Affordable Housing Initiatives and Planning Going Forward



Countries such as Korea and Singapore have achieved great strides in bridging the affordable housing gap through such a single entity. The Land and Housing Corporation in Korea for example, supplies diverse types of housing (Bogeuinjari Houses) to over 1 million households in Seoul. Houses are categorised, amongst others, into houses for sales and rental⁸. Additionally, the authority facilitates speedier supply of housing through the integration of development and construction planning, which reduces the project period from an average of six years to four years. In Singapore, the Housing and Development Board (HDB) manages and builds affordable public housing for Singaporeans. To date, more than 1 million flats have been completed and about 80% of its population now lives in HDB flats.

⁸ Rental housing in Korea includes People’s Rental (for a period of 30 years, applicable to those who earn less than 70% of the average city worker’s monthly household income), and Permanent Rental (applicable to recipients of basic living, single parent households and men of national merit). As such, housing is tailored to the economic conditions of citizens.

ii. Establishing an integrated housing database and an efficiently-managed applicant registry for the planning and allocation of affordable housing

An integrated database is key to addressing information asymmetries in the affordable housing market. Currently, Malaysia lacks such a database that captures the supply and demand of housing. The scarcity of information such as household income, characteristics and preferences has hindered the ability of supply to be tailored effectively to meet the demand of households. This has contributed to the large number of unsold residential properties, even for affordable houses, in various states including Johor, Selangor and Kedah. The database should comprise household income, characteristics and preferences (build-up size and location) in the market. Routine surveys which leverage on existing ones such as the Household Income and Expenditure Survey or the launch of a new National Housing Survey⁹, could be conducted to gather household-level data. Such information could provide guidance on the supply to the market and should be tapped into by the Government and developers to inform developments going forward.

In Singapore, the HDB formulates optimised housing policies and builds public housing with the support of a comprehensive database that is updated based on a survey¹⁰ conducted every five years. In the United States, the Department of Housing and Urban Development plans and designs its housing programmes for different target groups utilising the American Housing Survey¹¹ that is conducted biennially. For Malaysia, the survey should gather relevant indicators that will enable the centralised entity to determine the price point, location, size, design and specification of affordable housing. On the supply side, more precise inventory of existing housing stock and new planned supply by location would facilitate in identifying pockets of shortages in specific locations (Figure 5).

Figure 5: Suggested Key Indicators to be Included in the Integrated Database for Housing in Malaysia



Source: Adapted from the Singapore Housing and Development Board (HDB) Survey 2013

In addition to guiding the planning of housing by price, type and location, the integrated database would also help in identifying household segments that can afford to purchase a home. These households could then be prioritised in the allocation process of affordable housing units. Households that cannot afford a home could be directed to rental housing by state authorities. In Singapore, new HDB flat buyers must have a valid HDB Loan Eligibility (HLE) letter before purchasing their flat. The HLE letter considers the flat buyers' age, income and financial commitments to calculate the maximum loan eligibility and corresponding monthly instalments to ensure they are not financially overstretched.

⁹ Conducted every 5 years, collecting data at the mukim level (Source: Khazanah Research Institute, 2015)

¹⁰ The survey captures data on the economic and demographic profiles of HDB households, housing satisfaction and preferences.

¹¹ The survey captures data on the economic characteristics and demographics of occupants, household composition as well as the size, type and physical condition of the housing stock.

To encourage an efficient allocation process of affordable housing units, each state should ideally have only one applicant registry. Currently, separate applicant registries maintained by multiple agencies and affordable housing providers may result in overlapping of applicants, where an eligible applicant might experience delays in being allocated an affordable housing unit or in some cases, allocated more than one unit. Thus, state agencies should consolidate applicant registries among the various affordable housing providers in each state. The registry should then be cleaned up to remove duplicate applicants, and updated frequently to reflect latest household information. The consolidation would offer a one-stop centre for potential buyers of affordable houses, enable easier detection of genuinely eligible affordable housing applicants, speed-up the allocation process, and reduce the number of unsold affordable housing units.

iii. Reducing the cost barrier to affordable housing

Efforts to reduce the costs of housing are crucial to lower house prices towards a more affordable level. High construction costs remain one of the largest barriers towards wide-scale provision of affordable housing where costs such as construction materials, labour, compliance¹² and land could reach up to 80% of house prices according to the Real Estate and Housing Developers' Association Malaysia¹³. Labour-intensive traditional construction methods are less productive, resulting in lengthy project duration and higher overall project costs. Malaysia's adoption of technologically-advanced construction methods is not helped by the abundance of low to mid-skilled foreign workers¹⁴ offering lower cost of labour. These factors have resulted in wages and productivity levels in the construction sector that are lower than the national average and far below other countries (Table 1). Land costs in and around urban centres are also very high, impeding the ability for houses to be priced reasonably in these locations, where they are demanded the most.

Table 1 : Wages and labour productivity in the Malaysian construction sector compared to other countries.

<p>Average wages (Malaysia, 2016) <i>Construction: RM2,049</i> <i>Overall economy: RM2,463</i></p>	<p>Construction labour productivity <i>(USD per worker)</i></p> <p>Canada : USD66,646 (2015) Singapore : USD28,127 (2016) Chinese Taipei : USD14,516 (2015) Malaysia : USD9,650 (2016)</p>
<p>Labour productivity (2011- 2016) <i>Construction: RM32,000/worker</i> <i>Agriculture : RM56,000/worker</i></p>	

Source: Haver, National Authorities and BNM estimates

There are potential areas for cost reduction in affordable housing projects, namely adopting more advanced construction methods, pooling together resources under a single entity and reducing compliance cost for affordable housing projects (Figure 6). While a centralised entity would consolidate affordable housing initiatives at a macro level, micro-industrial improvements¹⁵ such as that mooted by Khazanah Research Institute could also streamline delivery and further realise cost efficiencies. Countries such as Singapore, India and Hong Kong have made progress in this regard through technological innovation¹⁶, and standardising of housing design through the use of uniform building codes which has helped spread such practices. Singapore has successfully reduced its overall construction costs with a wide adoption of Industrialised Building Systems (IBS), resulting in labour cost savings of more than 45% compared to conventional means (HDB, 2011). Land for affordable housing could also be uncovered through the release of public land for affordable housing, transit-oriented development and idle-land policies (McKinsey, 2014). For example, New York City is considering using land banks, reclamation and infrastructure decking¹⁷ to unlock new landbank for affordable housing.

¹² Includes conversion premiums, development charges, infrastructure contribution funds, and connectivity to utility companies.

¹³ Source: The EdgeProperty article, February 23 2017.

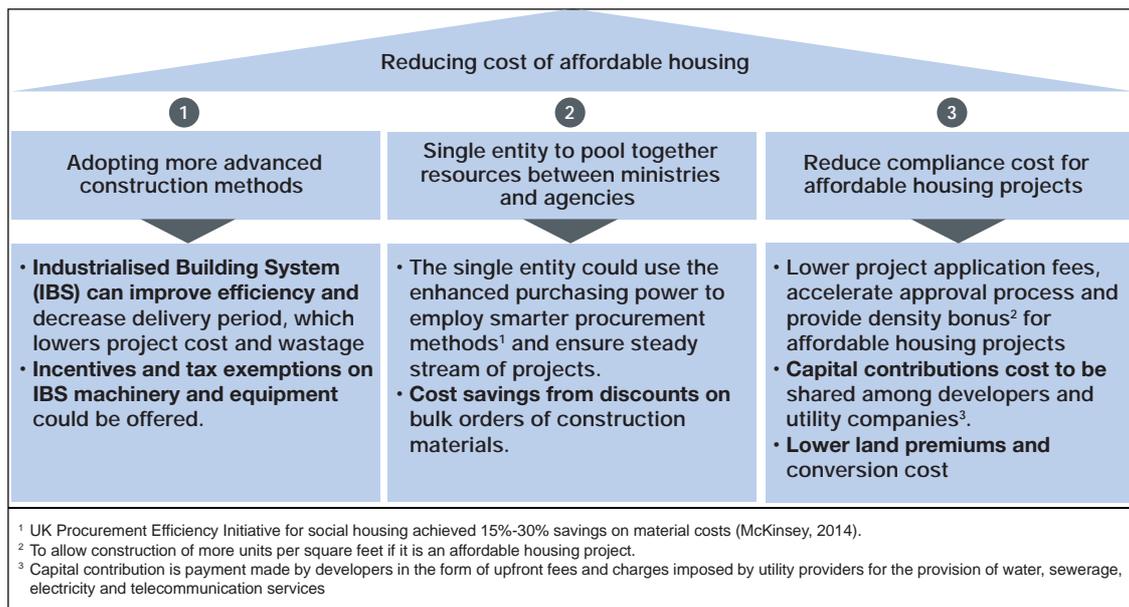
¹⁴ Foreign workers account for 27% of construction employment in 3Q 2017, higher than overall employment (12%).

¹⁵ A new designated procurement delivery system that consolidates resources of firms within the supply chain. This entails a move from using the Traditional General Contracting (TGC) procurement towards a design-and-build or turnkey governance structure and forming framework agreements with the material supply section (Source: Khazanah Research Institute, 2015).

¹⁶ In Singapore, the HDB achieved development efficiencies through technological innovation in which 70% of a house is made from prefabricated parts, allowing quick assembly and production at scale.

¹⁷ Construction of housing on top of existing infrastructures such as rail lines.

Figure 6: Reducing Costs of Affordable Housing in Malaysia



iv. Rehabilitating household balance sheets by enhancing financial literacy

For households, the purchase of a home is among the biggest financial decisions one would make. However, the majority of households in Malaysia¹⁸ were found to have inadequate knowledge to make informed financial decisions. More than 75% of Malaysians find it difficult to raise RM1,000 to meet emergency needs, while 47% of youth engaged in excessive credit card borrowings. The combination of low financial literacy of households, with high household indebtedness (88.4% of GDP in 2016) and house price growth exceeding household income growth contributed to lowering the ability of households to afford a home.

This underscores the need for homebuyers to make prudent financial decisions to avoid being distressed by their financial obligations. It is also crucial for them to understand that the costs of owning a home goes beyond purchase costs¹⁹. Recognising this importance, Bank Negara Malaysia aims to enhance financial literacy and homebuyer education through the Credit Counselling and Debt Management Agency (AKPK). For example, POWER! by AKPK offers an online learning portal which provides home-buying advice and guidance on the decision of buying or renting a home. Through AKPK's Housing Loan calculator, homebuyers could calculate the loan amount²⁰ they are eligible for, while the budget assessment calculator enables homebuyers to calculate their net disposable income after taking into account other expenses²¹. In addition, banks have also started offering rent-to-own homeownership plans, where renters are given the option to purchase the house after a set period of time.

¹⁸ Based on the Financial Capability and Inclusion Demand Side Survey conducted by BNM in 2015.

¹⁹ These costs include property assessment tax, quit rent, home insurance and building maintenance fees for strata-titled property.

²⁰ Total monthly payment, total loan payment and total interest payment according to a set of inputs which include house price, interest rate, down payment, and loan tenure

²¹ E.g. housing loans, fixed instalments, household items, utilities, child care, education, insurance and transportation.

v. Improving the rental market by strengthening the legal framework

While the country works towards increasing the supply of affordable housing for the masses, strengthening the residential rental market offers a means to alleviate the issue in the short run as households rehabilitate their balance sheets and increase their income. Unlike countries where housing are also unaffordable (e.g. Canada, New Zealand, and Australia), Malaysia does not have a legislation that is enacted specifically to govern the residential rental market. The lack of strong legal safeguards²² and the absence of a speedy and affordable tenant-landlord dispute resolution process have influenced some Malaysian households to purchase rather than rent. Statistics show that Malaysia has a relatively low share of households who live in rented accommodation (24%) as compared to Canada (31%), Australia (33%) and New Zealand (36%)²³.

In a stronger rental market, renting instead of buying would become a viable option of choice for households who are financially overburdened. In this regard, Malaysia has taken a step in the right direction. In the Federal Budget 2018, the formulation of the Residential Tenancy Act was announced. The landmark initiative would provide legal safeguards for both landlords and tenants, encouraging both demand and supply for rental housing in Malaysia. The next step would be to establish a Tenancy Tribunal, which offers an inexpensive option to resolve disputes between landlord and tenant²⁴.

Conclusion

While cities around the world have made great strides in alleviating the affordable housing issue, progress remains slow in Malaysia. The need to increase supply of affordable housing has been recognised in recent years, but efforts to truly improve the affordable housing market in the long run must confront the deep-rooted issues that prevent the adequate supply of reasonably priced homes. Housing remains out of reach for many Malaysian households despite the availability of bank financing, reflecting the ongoing concern of house price growth outpacing income growth. This emphasises the need to rehabilitate and improve the balance sheet of households, alongside implementing measures to increase household income in the longer-run. As the experiences of successful cities have shown, concerted efforts by the Government, housing developers, banks, consumers, interest groups and regulators alike are needed to bridge the affordability gap.

²² Provisions on tenancies in existing laws (National Land Code 1965, Contracts Act 1950, Specific Relief Act 1950, Civil Law Act 1956, Distress Act 1951 and the Common Law/Case Law) do not safeguard the rights of both landlords and tenants adequately.

²³ For more details, please refer to BNM's Annual Report 2015 Box Article, 'Assessing the Demand-Supply Conditions in the Malaysian Property Market' (Note: Data on rental share is sourced from national authorities).

²⁴ As in Australia, Canada and New Zealand.

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